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USDOE FOR CAROLYN GAY AND RHIA DAVIS

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SUBJECT: Brazil to Resume Oil Auctions in December 2008

REF: A) 07 Sao Paulo 899, B) Rio de Janeiro 91, C) Rio de Janeiro 35, D) Rio de Janeiro 138, E) Rio de Janeiro 135, F) Rio de Janeiro 159, G) Brasilia 910, H) Brasilia 1122

¶1. Brazil's National Energy Policy Council has authorized the National Petroleum Agency (ANP) to host an auction to license oil and gas rights on December 18, 2008. However, no offshore blocks will be offered at the "10th Round" auction to the disappointment of many industry representatives. Licensing bid rounds, held annually in Brazil since 1997, were suspended in late 2007 following the discovery of potentially massive "pre-salt" oil and gas reserves located in ultra-deep waters off of Brazil's southeastern coast. (REFTELS A, B, C) The government is considering a reform of the regulatory framework for exploration and production in these areas to raise the state's share of revenues. (REFTELS D and G)

¶2. The Council apparently disregarded ANP's recommendation to include offshore opportunities in the upcoming auction, instead deciding to limit further concession contracts to Brazil's less-attractive, riskier sedimentary basin. The 10th Round will include 171 onshore blocks covering 107,000 square kilometers in eight basins: Amazonas, Potiguar, Parecis, Sao Francisco, Sergipe-Alagoas, Recitavo, Paran and Pernambuco-Paraba. According to ANP, there is little-to-no knowledge or seismic data for over 94 percent of Brazil's 7.5 million square kilometer onshore sedimentary basin.

¶3. Reaction from industry representatives and energy sector experts to the announcement of the 10th Round is lukewarm, at best. Though industry had been pressuring for the government to resume auctions, it also strongly argued that the government needed to offer attractive opportunities even if pre-salt blocks were off the table.

The government's decision was exaggerated by sensitivities to the pre-salt debate -- it could have easily added areas in shallow waters, according to Adriano Pires, a Rio-based energy specialist and Director of the Center for Brazilian Infrastructure.

¶4. "We have taken away the offshore fields, just to be safe," local press quoted Energy Minister Edison Lobao as saying in Brasilia. He also cited concerns about the ability of industry, including Petrobras, to take on more offshore exploration at this time.

(REFTEL E) While Minister Lobao announced that there is a "big group" of oil companies who are interested only in land blocks, it is unlikely that the 10th Round will garner much interest from Petrobras, the six U.S. oil and gas companies operating in Brazil, or other major players such as newcomer OGX (REFTEL F). In fact, over the last year, ANP has been seeking the U.S. Government's help to learn how to better promote on-shore opportunities given the current lack of interest in Brazil. Minister Lobao also requested the assistance of Acting Deputy Secretary of Energy Jeffery Kupfer during his August visit here (REFTEL H) and has spoken with Ambassador Sobel regularly about stimulating U.S. industry interest in these areas, possibly through the involvement of Commerce Secretary Gutierrez (REFTEL G). Lobao has also expressed his willingness to travel to the U.S. as part of a campaign to solicit

the interest of smaller and independent developers (Note: a request to schedule a date is still pending with Lobao's office).

¶5. ANP Director Haroldo Lima has recently expressed doubt that the agency could even hold a new licensing round before the end of 2008 due to the limited time frame; it is likely that the 10th Round could be postponed until 2009.

¶6. This cable has been coordinated with and cleared by Embassy Brasilia.

MARTINEZ